Credit Ratings & Research

Credit Rating Report
Xceda Finance Limited

NZBN: 9429039261922

Credit Rating Report

Date: 27 May 2025

Prepared for: Xceda Finance Limited

Report prepared by: Equifax Australasia Credit Ratings Pty Ltd ("Equifax")

Primary Analyst: Girish Jethani, CFA

Secondary Analyst: Paul Gao, Ph.D.

Currency used in this report:

This report is presented in New Zealand Dollars unless otherwise noted

Corporate Scorecard
From Equifax

1 Contents

2 Executive Summary

Xceda Finance Limited ('XFL' or 'the Company')

Xceda Finance Limited ('XFL' or 'the Company') is a New Zealand-based Non-Bank Deposit Taking (NBDT) institution licensed by the Reserve Bank of New Zealand ('RBNZ') to accept deposits and underwrite loans to the public.

Equifax Credit Ratings Australasia Pty Ltd ('Equifax') has affirmed XFL's credit rating of 'B+' at Mar25, which is a sub-prime classification with a moderate level of risk. The rating was previously upgraded to 'B+' at Mar24 from 'B' at Mar23 supported by the Company's increased scale, healthy profitability, and a capital raise programme that partially offset recent deterioration in XFL's asset quality and supported its growth. The outlook for the rating has been revised to 'Positive' over the next 12 months, which reflects continued growth in the Company's asset base, and relatively stable headroom over minimum regulatory capital requirements.

XFL's credit rating is supported by its incumbent market position in the New Zealand NBDT sector, healthy liquidity profile commensurate with its size, focus on secured lending and, recent capital injections. The risks to XFL's credit rating arise from its asset quality, macroeconomic headwinds, and the Company's scale of operations.

Strengths

- XFL's competitive profile benefits from its niche offerings in the secured residential property lending market, thereby enabling the Company to attract repeat customers in a segment underserved by traditional banks, while profitably managing its customer portfolio. Furthermore, XFL's strong yield contributes to its ability to offer competitive rates to raise consumer deposits.

- The Company's scale has steadily increased over the period under review, evidenced by a five-year (Mar20-Mar25) compound annual growth rate ('CAGR') of 40.0% in its total asset base, 37.8% in the gross loan book and 46.9% in its deposit base. In our view, this coupled with an adequate level of profitability maintained over the assessed period, has supported an improvement in the Company's overall credit profile and the positive outlook.

- XFL's liquidity position is deemed healthy, underpinned by strong deposit reinvestment rates and a liquid asset-to-liabilities ratio of 32.5% at Mar25 (Mar24: 31.7%). These factors collectively enable the Company to effectively manage liquidity shocks and mitigate some of the risks associated with a high proportion of non-amortising loans (99.7% of the loan book at Mar25).

- The Company's growth has also been supported by an active capital raise campaign, which increased XFL's equity by $3.3m during FY25. In addition, management advised that further a $7.0m - $12.0m is expected to be raised in the near to medium term. In our view, this additional capital will likely support the stability of the Company's capital adequacy ratio during the active growth phase of its loan book. Furthermore, with increased capital, the Company has more capacity to absorb unexpected shocks to its loan portfolio and asset quality.

- The Deposit Takers Act ('DTA') introduces a depositor compensation scheme which will come into effect in July 2025. This in our view will enhance depositor confidence in the sector and provide a stable funding base for NBDTs, potentially increase the number of depositors, and reduce funding costs for entities such as XFL.

Constraints

- The quality of the Company's loan book remains below industry average. At Mar25, XFL's impaired loans were 6.6% of its gross loan portfolio (Mar24: 8.4%; Mar23: 6.2%; Mar22: 0.7%) driven by several underperforming loans, including the single largest loan in the Company's portfolio. This loan has remained non-performing in recent periods, despite its initially healthy Loan-to-Value Ratio (LVR) and multiple identified recovery prospects. We also note that the market price for one of the collateral assets is close to the impaired loan amount secured, which further highlights the potential idiosyncratic liquidity, and valuation risks dormant in the healthy LVRs of XFL's non-amortising secured loans portfolio.

- The NBDT sector in New Zealand, including XFL, continues to navigate significant macroeconomic headwinds. This challenging environment is primarily driven by subdued economic activity across the wider New Zealand economy and a weaker, albeit improving, property market. These factors may continue to exert pressure on XFL, including pressure on loan book growth, asset quality and LVRs.

- The Company's negative duration gap where terms of its deposits were longer than its loans, benefited XFL during the period of interest rate increases. However, this structure exposes XFL's net interest margins to market risks during the periods of declining interest rates which is partially reflected in the Company's FY25 net interest margins. Positively, we note that most of XFL's term deposits are expected to be repriced within 12 months, while in the medium term, the Company expects to increase the share of long-term loans in its portfolio and narrow the duration gap.

- XFL's rating is constrained by its relatively small - albeit growing size and franchise, its focus on the upper quadrants of the risk-reward matrix, and its retail deposit funding base. Additionally, a high proportion of interest-only loans in the Company's portfolio maximises its exposure to credit risks. We further note that the Company's operations are exposed to a moderate level of client concentration risk, as its 10 largest borrowers at Mar25 represented 22.7% of the entire portfolio, thus making the Company's financial performance materially dependent on credit risks of a handful of borrowers. Additionally, the Company's performance is exposed to market risks associated with the NZ property market, as most of its loans are secured by residential properties or land.

The outlook for the rating is 'Positive' over the next 12 months, which reflects continued growth in the Company's asset base, and relatively stable headroom over minimum regulatory capital requirements. The rating may be revised upward with sustained improvement in scale and asset quality, while maintaining profitability. There may be downward pressure on the rating if the Company's asset quality, capital ratio or profitability materially deteriorate, on an individual or a collective basis.

Risk Rating

B+

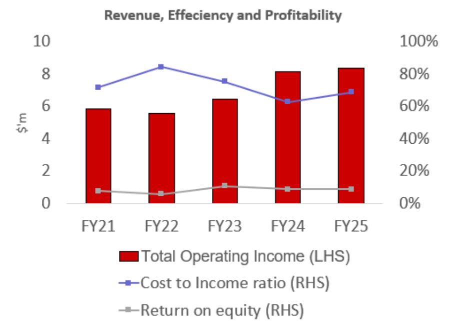
Positive

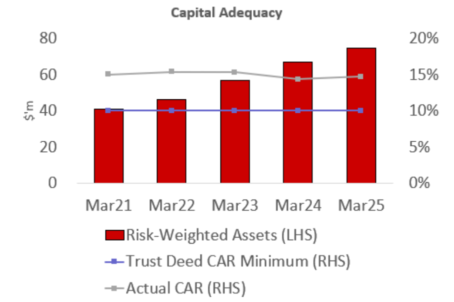
Public, Under ongoing monitoring

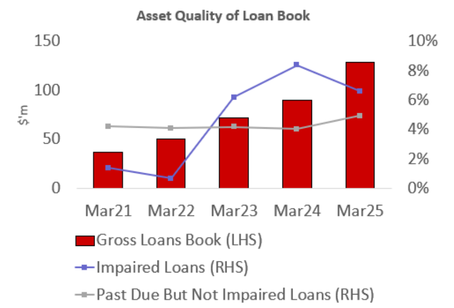
Industry Percentiles

	Percentile
Scale:	
Total Assets	57%
Gross loans	50%
Profitability:	
NIM	43%
ROE	50%
ROA	57%
Efficienty Ratio	43%
Capitalisation:	
Leverage (Gross Loans to Equity)	7%
Capital Ratio	50%
Capital to Total Assets	21%
Funding and Liquidity:	
Deposits to Loan Ratio	93%
Liquid Assets to Total Assets	79%
Asset Quality:	
Net Charge-offs	14%
Impaired Loans	7%
Provision for Loan Losses	22%

Key Trends







3 Scope of Report

The report provides an overview of the credit rating and associated rationale of Xceda Finance Limited ('XFL' or 'the Company').

We have complied with our rating services guidelines in order to derive the credit rating on Xceda Finance Limited. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold or sell any securities or make any other investment decisions. The details pertaining to this report are outlined below:

Report Details	
Date of Report	**27 May 2025**
Request Type	**Issuer**
Assessment Type	**Under ongoing monitoring**
Rating Initiation	**Issuer based (solicited)**
Rating Distribution	**Public Rating**
Report Distribution	**Unrestricted**
Purchased by	**Xceda Finance Limited**
Report Fee	**Fixed Price**
Ancillary fees	**Nil**
Subject First Time Rated	**No**
Issuer Name	**Xceda Finance Limited**
Issue Name	**Not Applicable**
Issue First Time Rated	**Not Applicable**
Financial Scope	**Standalone Entity**
Structure	**Limited Company**
Industry	**Financial Services**
Sector	**NZ Non-Bank Deposit Takers**

This report should be read within the context of Equifax's Rating Services Guide. This report should be taken as a whole and cannot be abridged or excerpted for any reason.

We have conducted this assessment on the basis of the information provided to us by Xceda Finance Limited, publicly available information and from our own enquiries. We have derived a credit rating on the Company based on the understanding that Xceda Finance Limited has no contingent liabilities, cross guarantees or other liabilities to any other entity other than as disclosed to us or as detailed in the financial statements. Our duty does not include auditing the financial statements.

Information Sources

Financial statements	**Audited Financial Statements for the years ended 31 March 2024, 2023, and 2022.** **Management Accounts for the year ended 31 March 2025.**
Name of auditor	**Grant Thornton New Zealand Audit Limited**
Other Information Sources	**The Company's response to our Request for Information, the Company website, industry and regulatory websites, management interviews, media articles, adverse searches and internet searches.**
Subject participation	**Full**
Material financial adjustments	**None**
Limitations of assessment	**None noted**
Outsourced rating activities	**No**
Confidentiality agreement	**No**
Material client	**No**
Rating amended post issuer disclosure	**No**
Potential conflict of interest	**No**
Rating methodology	**Financial Institution Rating Criteria**

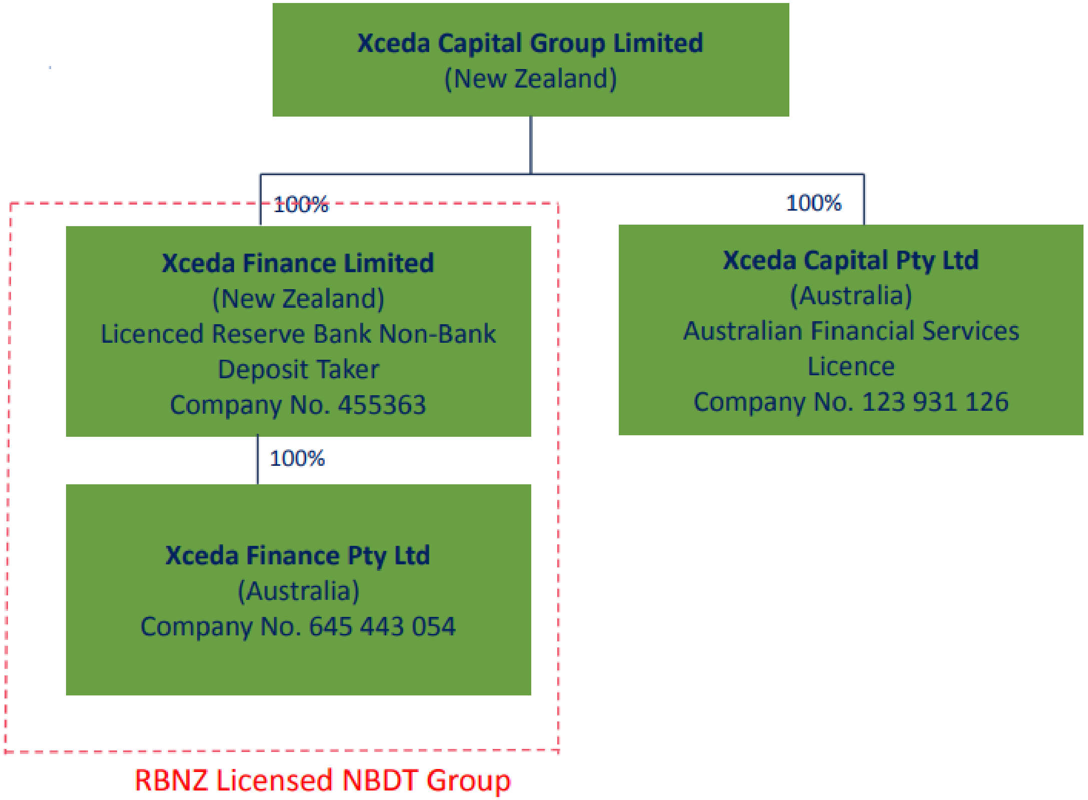
This report should be read within the context of Equifax's Ratings Services Guide.

4 General Background of the Subject

4.1 Subject Overview

Subject Name	**Xceda Finance Limited**
Previous Name	Asset Finance Limited
Type of Entity	Licensed Non-Bank Deposit Taker ('NBDT')
Head Office Address	Level 17, QBE Centre, 125 Queen Street, Auckland, 1010, NZ
Date of Incorporation	15 December 1989
Principal Activities	XFL is licensed by the Reserve Bank of New Zealand to operate as a non-bank deposit taker and raise money from and issue securities to the public. XFL raises funds from the public by offering debt securities (fixed term deposits) and provides property (residential and commercial) and business loans to qualified borrowers.
History	Since 1997, the Company has been undertaking the business of lending money to generate yield in investor funds. In March 2015, the Company obtained a licence from the Reserve Bank of New Zealand to operate as a Non-Bank Deposit Taker. In September 2018, the majority ownership of the Company was acquired by Clare Investments NZ Limited (formerly named Blackstar Finance Limited), a company jointly controlled by Daniel McGrath (the current Chief Executive Officer of the Company). The RBNZ gave consent for the restructure on 17th December 2019 and Covenant Trustee Services Ltd (appointed Supervisor) also gave its consent on 17th February 2020. Further, on 25th April 2020, the Company underwent a reorganisation whereby the major shareholders (Clare Investments NZ Limited and other shareholders holding 98.98% of the total shares) transferred their shareholdings to a new holding company, Xceda Capital Group Limited (Refer 3.2 – Corporate Structure for ownership tree). Pursuant to the restructure, on 11th May 2020, the largest shareholder Clare Investments NZ Limited was wholly acquired by Clare Investment Management Pty Ltd, an Australian private company controlled by the current CEO Daniel McGrath. In Oct21, the Company changed its trading name and style to Xceda Finance Limited.

4.2 Corporate Structure



4.3 Management

Board Member	Position	Date Appointed
Ian Hankins	Independent Board Chairman	8 Dec 2022
Daniel McGrath	Chief Executive Officer	16 Aug 2018
Ross Verry	Independent Board Director	8 Dec 2022

Ian Hankins

Independent Board Chairman

Ian has a 28-year career in retail banking, investment banking and wealth management gained across NZ, Australia and the UK. Over the last 10 years Ian held a number of senior management and internal director roles at Westpac NZ including CFO, Chief Transformation Officer and GM Consumer Bank. In 2022, he joined Forsyth Barr and currently leads their Wealth management division. Ian has a Bachelor of Commerce and Administration majoring in Money and Finance from Victoria University and in 2020 was awarded a Fellow membership of CPA Australia.

Daniel McGrath (BA/LLB,MA)

Chief Executive Officer

Daniel has extensive experience in senior management positions, having worked as a solicitor for major international law firms - Freshfields Bruckhaus Deringer LLP and Shearman & Sterling LLP, representing banks, private equity firms and global corporations. Daniel was also Senior Legal Counsel for ASX-listed Challenger Financial Services Group Ltd, advising on acquisitions and divestments for the Challenger’s funds management group. Daniel holds a BA/LLB from Queensland University of Technology and an MA from Cambridge University.

Ross Verry

Independent Board Director

Ross is the Chief Executive of Syndex, a private markets investment management and trading platform. Ross's previous role was General Manager, Agriculture for ANZ where he had responsibility for the development and implementation of the bank’s Agri business strategy. Prior to that, Ross held several senior Commercial Banking roles, including General Manager Corporate Banking and General Manager Specialist Businesses. Ross is a member of the New Zealand Institute of Directors and a former Chartered Accountant. He is currently also Chair of TH Enterprises, a large scale, family-owned dairy farming business and a Director of Gold Creek Farm Management and the NZ Cricket Players Association.

4.4 Governance and Controls

XFL's core risk management processes include Identify, Analyse, Respond, Monitor, and Report. The processes are applied commensurate with need, across all phases of the credit process cycle lifecycle: origination, evaluation, approval, documentation and settlement, account administration and monitoring; and problem management. The credit process lifecycle is used by XFL to decompose credit risk into a wider range of constituent individual risks for purposes of managing these exposures.

Identify and Analyse

Identification and analysis of credit risk are particularly relevant during the origination, evaluation, approval, and documentation & settlement phases of the credit process cycle:

- At a portfolio level as part of the annual strategic planning process; and
- At an individual borrow level at origination of a loan and periodically thereafter as an integral part of account monitoring, both for performing and non-performing loans.

Respond

Response activities are particularly relevant during the account administration and monitoring, and problem management phases of the credit lifecycle. Response involves developing a plan of an action for treatment of risks assessed as non-acceptable, determination of the person/area of responsibility with the task of implementing the action, the implementation and follow up.

Monitor

Reports are produced which monitor compliance with policy. These reports are kept on file for a period of at least 12 months in order to monitor trends and trigger action should it be deemed necessary. XFL's suite of credit and related reporting is as follows:

Report Name	Freq.	Description	Person Responsible	Report to
Management Accounts	Monthly	Financial accounts – Profit and Loss and Balance Sheet, shows bad debts written off.	CFO	**Management, Board**
Management Reporting to Directors	Monthly	Show loan book breakdown by impairment status, product type, payment type, geographical region, primary collateral type, top exposures, etc	CEO	**Management, Board, Trustee**
Account Collection Review Report	As required	Shows details about significant loans that are in default, so decisions can be made on future collection action.	CEO	**Management**
Trust deed reporting	Per Trustee Requirements	The monthly trustee reporting has information on loan quality and write offs.	CFO	**Board, Trustee**
Reserve bank spreadsheet	Per RBNZ requirements	The monthly template for the Reserve Bank that is submitted to the trustee contains loan quality and asset concentration information under the "Assets" heading.	CFO	**Board, Trustee, RBNZ *(via the trustee)***
Annual Report and Half Year Financial Accounts	6 Monthly	The asset quality note shows information on loan overdue and impairment status	CEO & CFO	**Public, Shareholders, Investors, Trustee**

Report

The management team is required to report to the CEO when reports indicate credit risk exposures outside of company tolerances or limits or non-compliance with company policy. The CEO is required to report to the Board of Directors on all matters which the board determines require reports. In addition to standard reports shown in the table above, the Board may request such other reports as it sees fit. XFL has requirements to report to its Trustee and to other regulatory bodies. All such reports will be completed and submitted by the required dates.

External

The Trust deed and the prudential norms prescribed by RBNZ are key source of external governance measures which XFL must comply with. The details of the RBNZ's prudential requirements are detailed in section 7 and the table below summarise the XFL's compliance with select requirements of the trust deed and RBNZ's prudential norms.

Ratio	Calculation	Mar25	Mar24	Mar23	Trust deed	Regulatory
Risk weighted capital ratio	Tier 1 capital as a percentage of risk weighted assets	14.7%	14.4%	15.4%	10.0% or more	8% or more if rated. 10% or more if unrated.
Related party ratio	Aggregate credit exposures to all the related parties as a percentage of tier 1 capital	0.0%	3.7%	0.0%	<5.0%	<15%

5 Financial Overview

5.1 Summary Financial Data

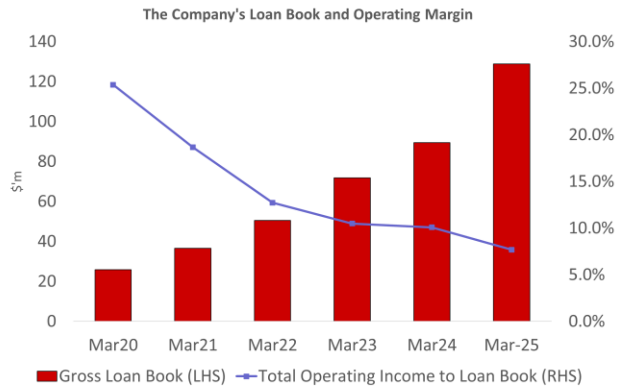
Xceda Finance Limited					
$'000s	Trend				
Income Statement		FY22	FY23	FY24	FY25
Net Interest Income		3,146	4,024	5,026	5,071
Non Interest Income		2,390	2,386	3,096	3,305
Operating Income		5,536	6,410	8,122	8,376
Operating Expense		4,662	4,820	5,091	5,755
Pre Provision Operating Profit		889	1,574	3,031	2,620
Credit Impairment Charge / (Reversal)		278	303	1,177	1,133
Operating Profit Before Tax		611	1,271	1,854	1,488
Other non Operating Income / (Expense)		15	- 16	-	-
Net Profit		435	902	1,303	1,065
Financial Position		Mar22	Mar23	Mar24	Mar25
Total Assets		59,074	89,454	126,508	184,089
Customer Deposits		50,170	79,258	113,668	166,080
Gross Loans		50,503	71,819	89,434	128,730
Liquid Assets		7,165	16,381	36,074	54,052
Ratios					
Profit Before Tax to Operating Income Margin (%)		11.0%	19.8%	22.8%	17.8%
Net Interest Margin (%)		6.1%	5.5%	4.7%	3.3%
Cost to Income (%)		84.2%	75.2%	62.7%	68.7%
Return on Asset (%)		0.8%	1.2%	1.2%	0.7%
Return on Equity (%)		5.7%	10.5%	13.5%	8.7%
Capital Ratio (%)		15.4%	15.4%	14.4%	14.7%
Capital to Total Asset Ratio (%)		13.6%	10.2%	8.0%	7.8%
Leverage Ratio - (Gross Loans / Equity) (x)		6.3	7.8	8.8	8.9
Charges-offs / Gross Loans (%)		0.6%	0.4%	1.3%	0.9%
Neither Impaired or Past Due to Gross Loans (%)		94.5%	89.4%	87.4%	88.4%
Non-Performing Loans to Gross Loans (%) *		1.2%	6.4%	8.4%	6.6%
Loan Loss Provision / Gross Loans (%)		0.4%	0.5%	1.5%	1.8%
Deposits to Gross Loans (%)		99%	110%	127%	129%
Liquid Assets to Total Assets (%)		12.1%	18.3%	28.5%	29.4%

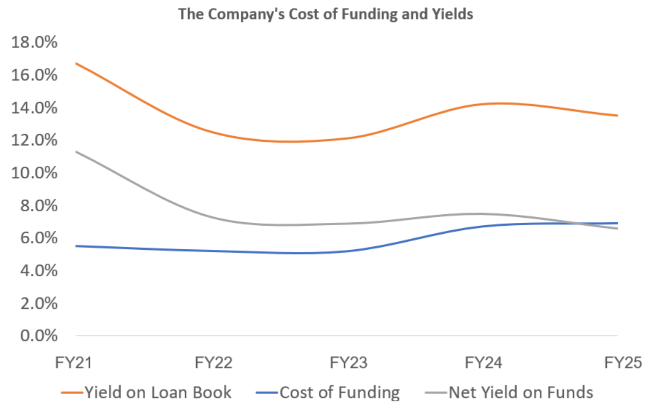
**Non-performing Loans = Impaired loans + Loans past due for more than 90 days*

5.2 Revenue and Profitability

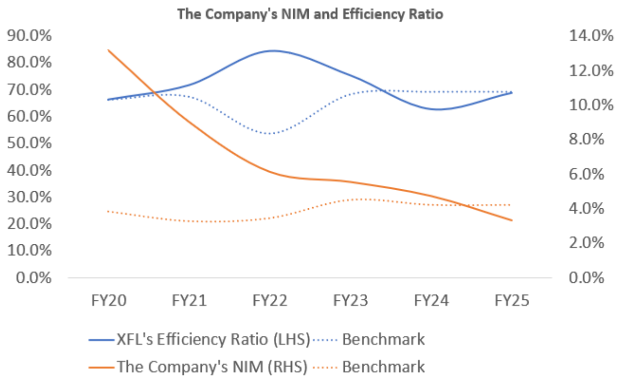
For the year ended Mar25, the Company's operating income increased by 3.1% (FY25: $8.4m; FY24: $8.1m; FY23: $6.4m; FY22: $5.5m), which translated to an operating margin (operating income to average gross loan book ratio) of 7.7% (FY24: 10.1%; FY23: 10.5%; FY22: 12.7%). The operating income was supported by an increase in the gross loan book (Mar25: $128.7m; Mar24: $89.4m; Mar23: $71.8m; Mar22: $50.5m). That being said, net yield on funds decreased, defined as a difference between yield on loan book and cost of funding

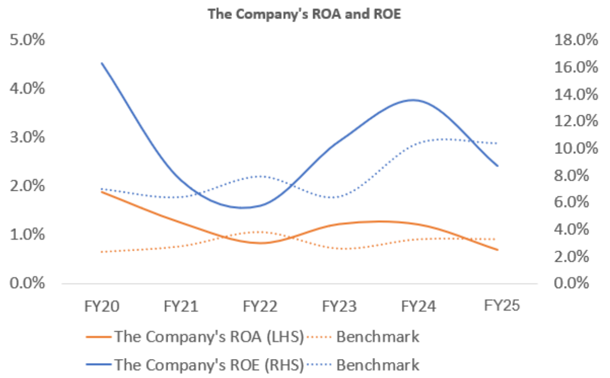
(FY25: 6.6%; FY24: 7.5%; FY23: 6.9%; FY22: 7.3%). The amount of liquid assets (Mar25: $54.1m; Mar24: $36.1m; Mar23: $16.4m; Mar22: $7.2m) increased, which has partially led to the decrease in the operating margin.





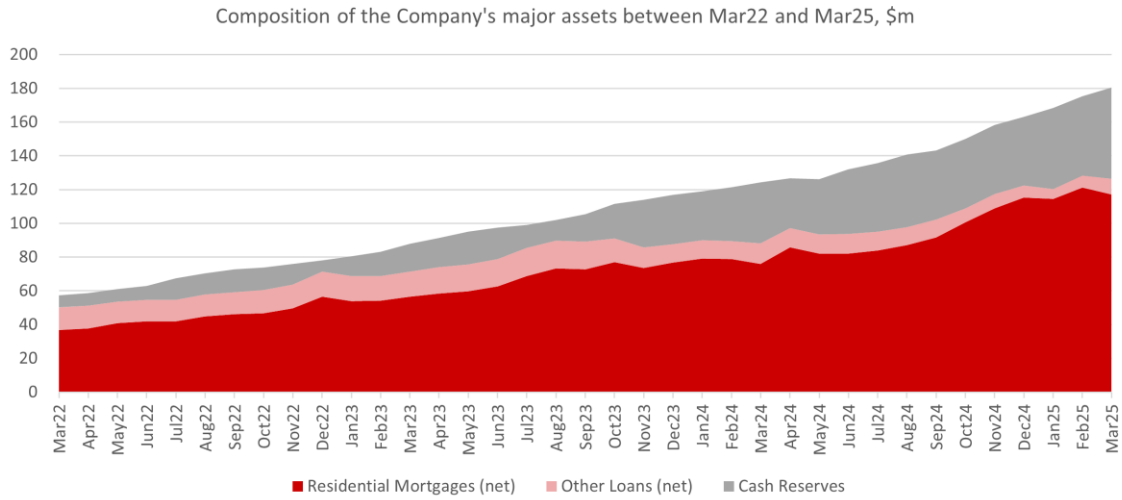
The Company's efficiency measured by its cost to income ratio is broadly in line with the sector average with material deviation observed for FY22 only (refer to the left-hand-side (LHS) graph below). Similarly, XFL's net interest margin has gradually converged to the sector average while the Company's Return on Equity (ROE) ratio is largely in line with the benchmark.





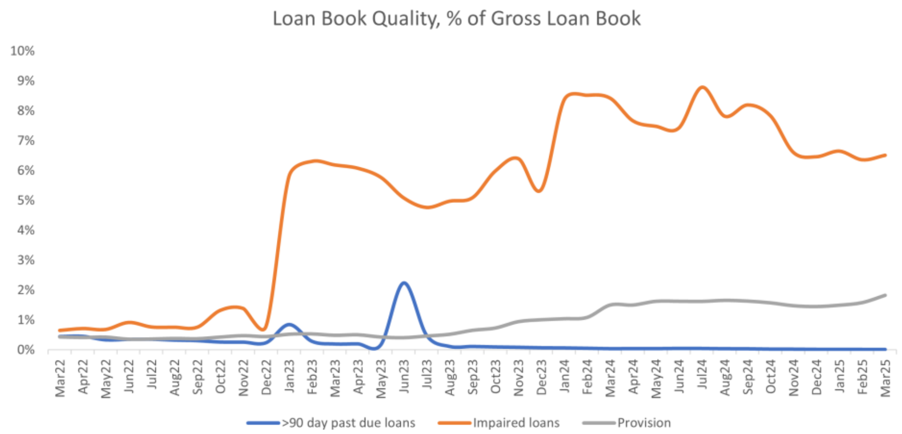
5.3 Asset Quality

In recent years, XFL has focused on extending short-term bridge loans secured by residential properties to non-CCCFA clients (companies, trusts, and individuals for business related purposes) over 3 to 24 months. This is reflected in a steady growth in the share of loans backed by residential properties in the Company's net loan book (Mar25: 91.6%; Mar24: 86.3%; Mar23: 79.1%; Mar22: 73.1%), most of which have LVR <= 70.0%, accounting for 71.9% of net loan book at Mar25 (Mar24: 89.3%; Mar23: 92.1%; Mar22: 61.8%). We note that these short-term loans place pressure on the Company to continuously secure facilities and disbursements to maintain or grow its operational scale. This dynamic, combined with significant deposit growth in recent periods, has led to the accumulation of a relatively high levels of cash liquidity.

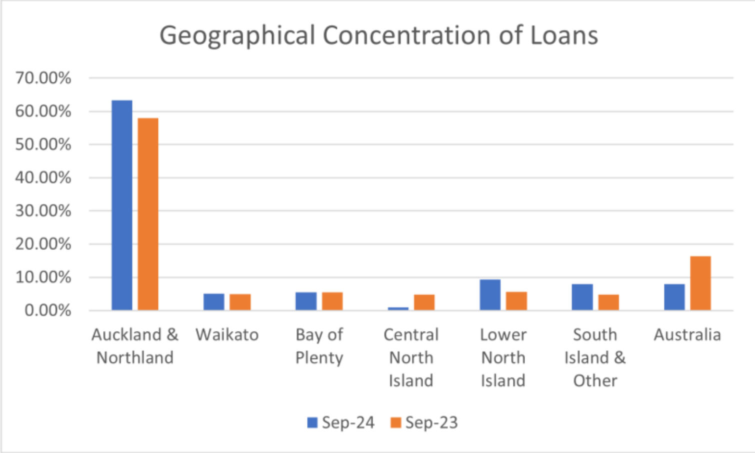


We note that long term loans (> one year) represent a relatively small portion of XFL' loan book. In the next 12 months (up to Mar26), $94.5m of loans will mature, accounting for 73.4% of XFL's loans at Mar25. In order to increase the duration of its assets, the Company has recently developed several new lending products with terms of up to 15 years.

The quality of the Company's loan book experienced deterioration up to Jul24 with non-performing loans (NPL) peaking ~8.5% of the gross loan book. However, as loan growth accelerated, asset quality metrics improved, leading to a reduction in NPL's to 6.6% of the gross loan portfolio at Mar25 (Mar24: 8.4). Concurrently, impairment provisions increased as the Company made additional provisions for underperforming loans.

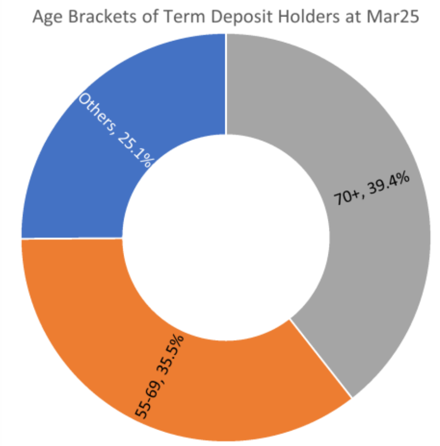


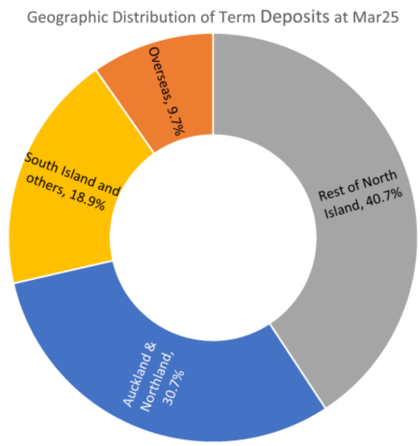
Due to the Company's relatively small scale, performance of its portfolio is susceptible to concentration risks; as of Mar25, its 10 largest loans accounted for 22.7% of total loan book, with most of the Company's loans being associated with the Auckland & Northland regions.



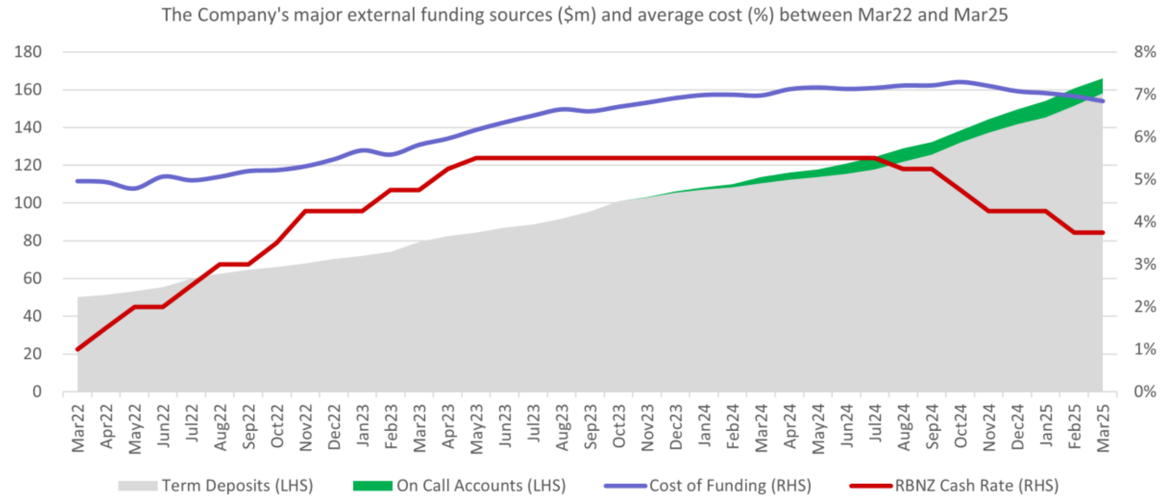
5.4 Funding Sources

Term deposits remain the main source of funding for the Company, being equivalent to 85.9% of total assets at Mar25 (Mar24: 87.2%; Mar23: 88.6%). A significant portion of term deposit funds have been placed by depositors older than 70, followed by the 55-69 age group. Both age groups are characterised by longer deposit terms compared to younger clients, which supports the stability of the Company's funding base. We also note that the Company's funding is more diversified compared to its loan book, with top 10 depositors accounting for ~10.0% of the Company's total deposits at Mar25, and geographic distribution closer aligned to the population spread of New Zealand.



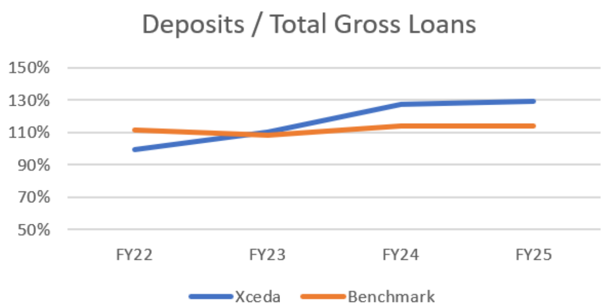


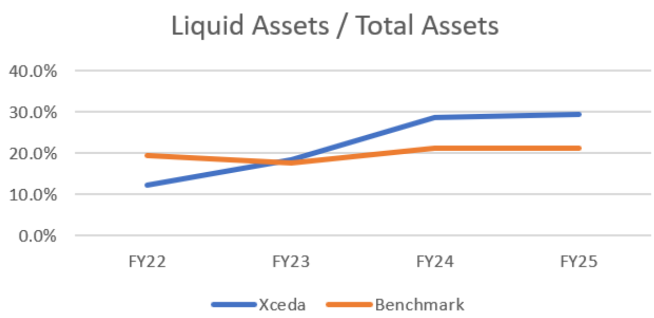
As of Mar25, only 13.3% of term deposits had more than 12 months to maturity (Mar24: 31.3%; Mar23: 42.6%; Mar22: 54.5%), which reflects a significant reduction in duration. The Company noted that it has been targeting short-term deposits to reduce the duration of its deposit book. In addition to term deposits, the Company has recently introduced on-call accounts that have been steadily growing since Sep23 and were equivalent to 4.8% of total assets at Mar25. These accounts represent a lower cost of funding for the Company and somewhat mitigates its exposure to market risks.



5.5 Liquidity and Maturity Profile

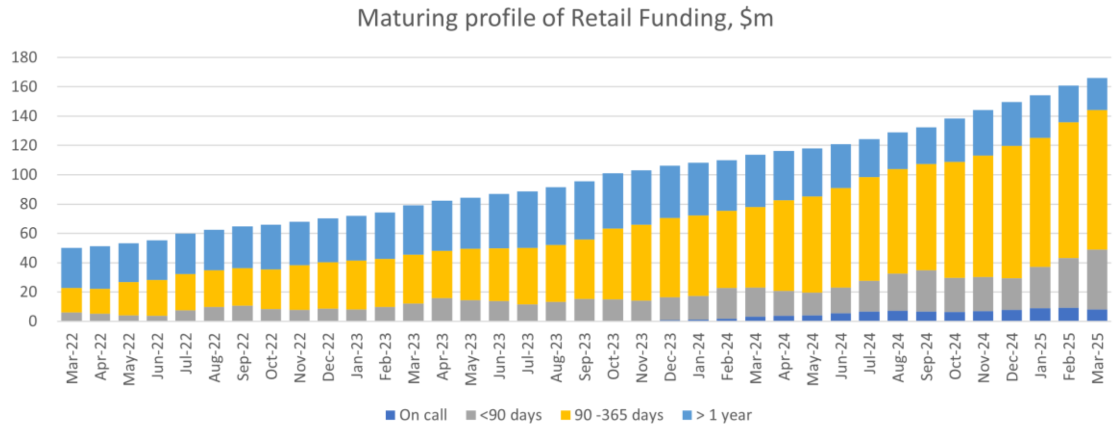
The Company's deposits to loans ratio increased marginally to 129% (Mar24: 127%) at Mar25 and remained slightly higher (better) than its peers. XFL reported 43.9% growth in the loan book, and a 46.1% increase in deposit funding, which meant that the Company's liquid assets to total assets ratio remained relatively stable, and better than the sector median at 29.4% at Mar25 (Mar24: 28.5%). Overall, XFL's demonstrated capacity to attract deposits has supported asset growth and its funding profile.

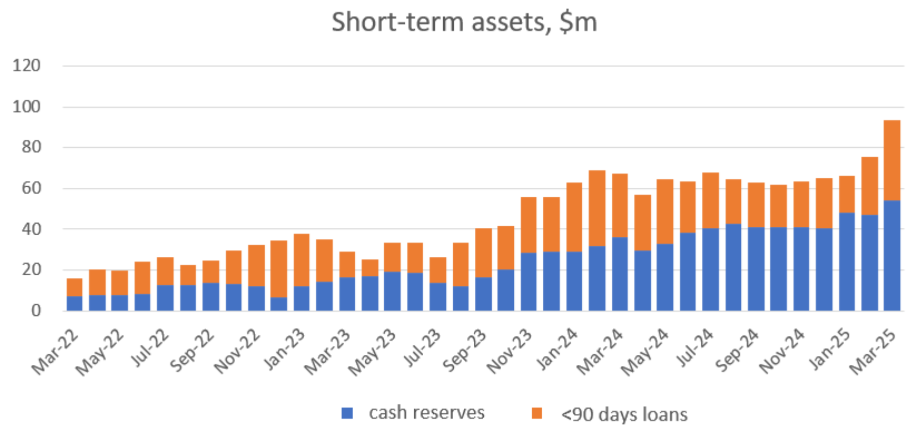




Benchmark figures for FY25 are extrapolations of FY24 data, as there was insufficient FY25 financial information available to form a reliable data-set at May25.

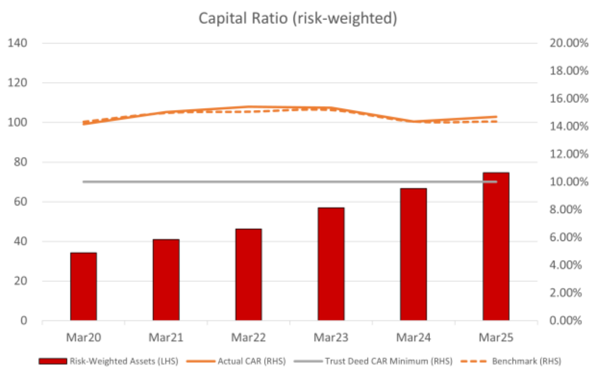
XFL's liquidity profile remains healthy, evidenced by the maturity profile of its deposit funding (graphs below). XFL's short-term assets (cash reserves and loan maturing within 90 days) (Mar25: $93.4m) were ~2.0x of its short-term liabilities – which are on-call accounts and deposits maturing within 90 days (Mar25: $49.0m). The Company allocates excess cash reserves into saving accounts and short-term treasury bills.

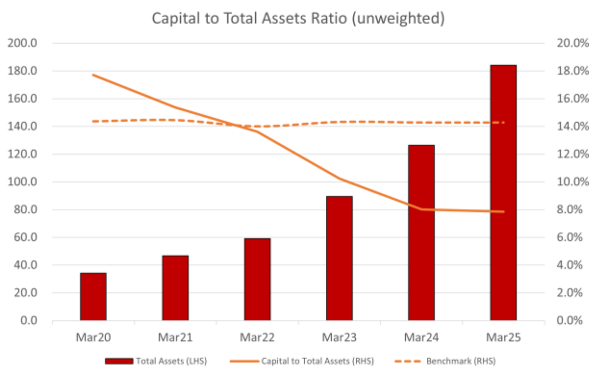




5.6 Capital Adequacy

Management noted that it had made a strategic decision to focus on residential mortgages with LVR <= 70.0%, which carries a lower risk weight. This, together with the addition of new capital, has enabled XFL to maintain a relatively stable capital ratio recently (Mar25: 14.7%; Mar24: 14.4%; Mar23: 15.4%). Meanwhile, XFL's total assets grew with a CAGR of 40.0% between Mar20 and Mar25, which exceeded the CAGR of equity (+16.1%) over the same period, which led to its capital to total assets ratio (unadjusted for risk weights) reducing from to 7.8% at Mar25 from 17.7% at Mar20, which was materially lower than the sector average (~14.0%).





The Company’s equity position has faced recent pressure from increasing impaired loan allowances, which were equivalent to 58.7% of net assets at Mar25. XFL’s potential inability to minimise losses on its non-performing loans has the potential to impact its capitalisation, going forward. Positively, we note that the four largest loans in arrears are secured by first mortgages:

- Loan 1 with net amount of $2.9m and a reported LVR 55.2%; recovery of this loan is largely dependent on a successful sale of a collateral asset either by the borrower or the Company,
- Loan 2 with net amount of $1.5m and a reported LVR 79.5%; recovery of this amount is dependent on the borrower’s ability to refinance the loan or a successful sale of a collateral asset (we note that anticipated sale value appears to be close to the loan amount and therefore actual LVR is likely to be higher and closer to 100.0%, which increases possibility of losses for XFL),
- Loan 3 with net amount of $0.8m and a reported LVR 87.3%; recovery of this loan is also dependent on a successful sale of a collateral asset, and
- Loan 4 with net amount of $0.5m and a reported LVR 52.9%; repayment of this loan is expected at the end of Sep24.

Positively, the Company’s capital position is expected to be supported by an active capital raise campaign, which thus far has increased XFL’s equity by $3.3m during FY25. In addition, management advised that a further $7.0m - $12.0m is expected to be raised in the near term. In our view, this is likely to support the stability of the Company’s capital adequacy ratio during the active growth phase of its loan book and offset the impact of non-performing loans.

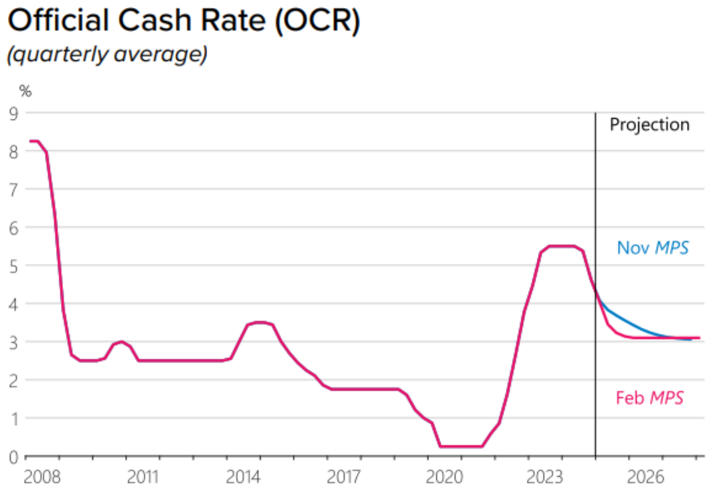
6 Economic Implications

Annual consumer price inflation remains near the mid-point of the Monetary Policy Committee’s 1 to 3 percent target band. Firms’ inflation expectations are at target and core inflation continues to fall towards the target mid-point. The economic outlook remains consistent with inflation remaining in the band over the medium term, giving the Committee confidence to continue lowering the OCR (Official Cash Rate).

Economic activity in New Zealand remains subdued. With spare productive capacity, domestic inflation pressures continue to ease. Price and wage setting behaviours are adapting to a low-inflation environment. The price of imports has fallen, also contributing to lower headline inflation.

Economic growth is expected to recover during 2025. Lower interest rates will encourage spending, although elevated global economic uncertainty is expected to weigh on business investment decisions. Higher prices for some of our key commodities and a lower exchange rate will increase export revenues. Employment growth is expected to pick up in the second half of the year as the domestic economy recovers.

Global economic growth is expected to remain subdued in the near term. Geopolitics, including uncertainty about trade barriers, is likely to weaken global growth. Global economic activity is also likely to remain fragile over the medium term given increasing geoeconomic fragmentation.



Source: RBNZ estimates.

Consumer price inflation in New Zealand is expected to be volatile in the near term, due to a lower exchange rate and higher petrol prices. The net effect of future changes in trade policy on inflation in New Zealand is currently unclear. Nevertheless, the Committee is well placed to maintain price stability over the medium term. Having consumer price inflation close to the middle of its target band puts the Committee in the best position to respond to future inflationary shocks.

The Monetary Policy Committee today agreed to lower the Official Cash Rate by 50 basis points to 3.75 percent. If economic conditions continue to evolve as projected, the Committee has scope to lower the OCR further through 2025.

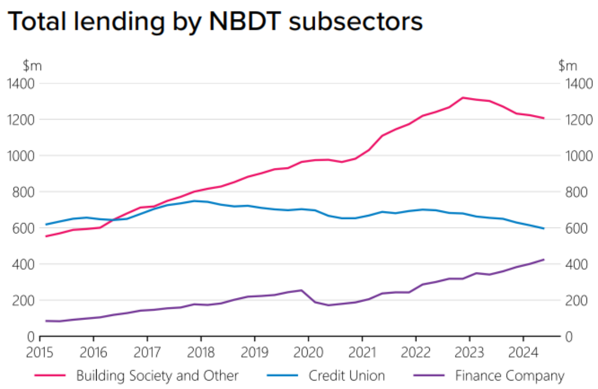
Source: Monetary Policy Statement, RBNZ, February 2025

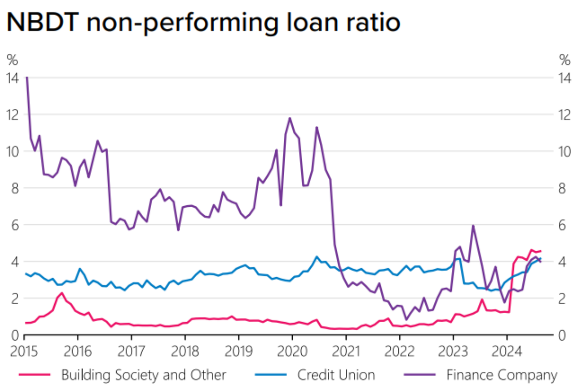
7 Market Overview

There are 14 licensed NBDTs operating in New Zealand, which include building societies, credit unions, and deposit-taking finance companies. They have diverse business models, asset sizes, geographic concentrations and product mixes. Total lending by NBDTs is around $2.2 billion, the sector is very small relative to the banking sector in total lending but provides services to a relatively large number of customers. NBDT capital levels have been generally stable in the past year. Aggregate capital ratios are above their regulatory minimums. Asset quality has been stable, with non-performing loan ratios at their historical averages. However, borrowers may be increasingly challenged by the subdued economic outlook and higher debt servicing costs.

NBDTs are diverse in terms of asset size however the lack of economies of scale continues to weigh on profitability for many. This has been a long-standing challenge in parts of the sector with operating costs tend to be high relative to income, and the capacity to raise capital is limited. The business models of individual lenders tend not to be well diversified in terms of geographic exposure and products. These factors contribute to lower resilience in the NBDT sector compared to the banking sector. The sector has consolidated in recent years, particularly for credit unions and further consolidation and/or changes to the business model may happen. However, the NBDT sector remains diverse, with some building societies and finance companies better able to build resilience in the long term.

There has been a broad-based slowdown in new lending by NBDTs in the last 18 months, particularly from building societies and credit unions, driven by the high-interest rate environment, subdued demand for credit and an uncertain economic outlook. Moreover, non-performing loans have increased from their low point in 2022, reflecting the slowing economy.





Source: RBNZ Financial Stability Report

7.1 Prudential Framework

The Reserve Bank regulates non-bank deposit takers (NBDTs) in New Zealand for the purposes of promoting the maintenance of a sound and efficient financial system and avoiding significant damage to the financial system that could result from the failure of an NBDT. NBDTs are entities that make an NBDT regulated offer and carry on the business of borrowing and lending money, or providing financial services, or both. The prudential regulation of NBDTs is provided under the Non-bank Deposit Takers Act 2013 and associated regulations. Trustee companies also have obligations under the Act. These include ensuring certain prudential content is included in licensed NBDTs' trust deeds. Trustees must report to the Bank any non-compliance with the Act and regulations by the licensed NBDT. Trustees are licensed by the Financial Markets Authority under the Financial Markets Supervisors Act 2011. The table summarises certain key prudential requirements from RBNZ for NBDTs currently in force.

Credit Rating	Licensed NBDTs are required to have a local currency (New Zealand dollar), long-term, issuer rating given by approved rating agencies.
Governance	Licensed NBDTs that are companies or building societies must have a chairperson who is not an employee of either the licensed NBDT or a related party and must have at least two independent directors. Licensed NBDTs that are subsidiaries of another person are prohibited from including provisions in their constitutions that would allow directors to act otherwise than in the best interests of the NBDT.
Risk Management	Licensed NBDTs are required to have a risk management programme that outlines how the licensed NBDT identifies and manages its credit, liquidity, market and operational risks. This programme is to be submitted to, and approved by, the licensed NBDT's trustee.
Capital Ratio	A minimum capital ratio (the level of capital in relation to the credit exposures and other risks of the NBDT or its borrowing group) is required to be included in licensed NBDTs' trust deeds. This ratio must be at least 8% for licensed NBDTs with a credit rating from an approved credit rating agency. For licensed NBDTs without a credit rating from an approved rating agency, the minimum capital ratio specified in the trust deed must be at least 10%.
Related party exposure limits	The exposures to related party, as defined in the Act, shall not exceed a maximum limit of 15% of capital.
Liquidity	Liquidity regulations require every licensed NBDT and its trustee to ensure that the licensed NBDT's trust deed include one or more quantitative liquidity requirements that are appropriate to the characteristics of the licensed NBDT's business, and that take into account the liquidity of the licensed NBDT and the liquidity of any borrowing group.
Suitability assessment of certain directors and senior officers	Licensed NBDTs must notify the Reserve Bank when one of its directors or senior officers (or a person who is proposed to be appointed as a director or senior officer) raises a "suitability concern".
Change in ownership	An application must be made to the Reserve Bank to approve a transaction that will result in a person: 1. having the direct or indirect ability to appoint 25% or more of a licensed NBDT's governing body; or 2. having a qualifying interest in 20% or more of the voting securities issued by the licensed NBDT.

The Deposit Takers Act 2023

The Deposit Takers Bill ('DTA') will replace the existing prudential regulatory regime contained in the Banking (Prudential Supervision) Act 1989 and the Non-bank Deposit Takers Act 2013. The integration of these previously separate regimes will create a single, consistent framework for the regulation and supervision of financial institutions that essentially engage in the same activity – the business of taking 'deposits' from the public, and lending to individuals, households, and businesses.

It will take some years for the Reserve Bank to develop and consult on the secondary legislation that will implement the regulatory requirements for the new regime and complete a licensing process for deposit takers to operate under the regime. The parts of the current Reserve Bank Act relating to the regulation and supervision of registered banks and the Non-bank Deposit Takers Act 2013 will remain in force until the remaining parts of the DTA have been fully implemented.

Recent Developments

- The Depositor Compensation Scheme (DCS) will protect customers for up to $100k if their deposit taker fails. The DCS will be funded through levies (fees) on deposit takers and is expected to commence in mid-2025.

- In Mar24 Proportionality Framework for developing prudential standards was published. The framework is the first step in developing standards as it sets out how RBNZ will take a proportionate approach in developing the DTA standards. Under the framework, deposit takers will be allocated into four groups with 'Group Three' for locally incorporated deposit takers with total assets of less than $2.0bn.

Source: RBNZ Financial Stability Report

7.2 Financial Benchmarks

Description	Percentile	Xceda Finance Limited	Sector Median
Financial Period		FY24	FY24
Scale:			
Operating income ($ 000s)	33%	8,122	5,716
Total Assets ($ 000s)	17%	126,508	149,184
Gross loans ($ 000s)	25%	89,434	89,434
Profitability:			
Net Interest Margin (%)	92%	5.1%	4.2%
Non Interest Income to total income (%)	42%	31.0%	13.7%
ROE (%)	83%	12.3%	10.4%
Return on total assets (%)	92%	1.1%	1.0%
Cost to Income (%)	92%	64.2%	69.2%
Capitalisation:			
Leverage (Gross loans to Equity) (x)	100%	8.8	6.2
Capital ratio - risk adjusted (%)	75%	14.4%	14.4%
Capital to total assets ratio (%)	100%	8.0%	14.3%
Funding and liquidity:			
Gross loans as a % of total assets (%)	67%	70.7%	73.2%
Gross loans to deposit (%)	100%	78.7%	87.6%
Liquid assets to total assets (%)	42%	28.5%	21.3%
Asset Quality:			
Write-offs to gross loans (%)	17%	1.3%	0.0%
Impaired loans to gross loans (%)	100%	8.4%	0.6%
Total provision to gross loans (%)	58%	1.5%	0.8%

8 APPENDICES

1. Explanation of the Equifax’s credit rating

1.1 What is a rating?

Credit ratings provide an Agency's opinion as to the capacity, viability and willingness of an entity, issuer, or counterparty to meet their respective financial commitments. As such, Equifax assigns ratings based on the credit worthiness of an entity, commitment or product, and provides probabilistic assessments of default over the short, medium and long-term.

Credit ratings are a critical measure used extensively in commercial, financial and capital markets to support key business decisions. Equifax’s credit ratings are used to support debt and bonding decisions, loan origination and recovery, insurance and warranty, funds management, portfolio management, tendering and procurement, counterparty risk assessments and other commercial contracts.

Equifax provides credit ratings on government and commercial agencies, international conglomerates, infrastructure consortia, financial institutions, publicly listed entities, private corporations and small-to-medium sized enterprises across a range of industry sectors both domestically and internationally. As such, Equifax is also able to provide detailed industry intelligence, benchmarking reports and analysis across a wide range of sectors.

1.2 Equifax’s credit rating

Equifax and other credit rating agencies all attempt to measure the probability of an entity being able to honour its financial commitments as and when they fall due. The most recognised credit rating is that based on Bond Rating Equivalents (BRE) used over the past eighty years to determine the proximity of an entity’s securities to default (non-payment of interest or principal). The accuracy of this method has been extensively tested and is accepted worldwide.

The Equifax’s database contains more than 100,000 financial years of information spanning more than twenty-five years. As such Equifax is in a unique position, having developed a large and empirical data source on entities across various industry sectors with long data histories covering a range of economic conditions and one or more complete business cycles. Equifax has therefore been able to use a variety of quantitative validation tools and comparisons using this information to adequately verify the stability, accuracy and consistency of its rating models.

Equifax's rating models have been designed to assess the proximity of an entity to defaulting on its financial commitments and obligations. Proprietary risk analytics are used to evaluate the multivariate interrelationship of key risk indicators using scientifically based and empirically derived risk metrics. These models evaluate the financial performance, position and profile of an entity in the context of its industry, size and structure. They have been validated on Australian and international data with the assistance of Professor Edward Altman, an internationally recognised leader in the field of credit risk analysis and bankruptcy prediction.

Equifax uses its comprehensive benchmarking database to evaluate the financial position, performance and credit quality of an agency, institution, corporation or entity relative to an industry and its peers. This enables the identification of key sensitivities, trends, cautionary alerts and exception reports based on identified anomalies and/or outliers across key credit indicators of a select benchmarking group.

While there is no single method to discriminate unambiguously between firms that will default and those that will not, Equifax can make probabilistic assessments of default. This requires a large database of actual defaults to enable an assessment of default probabilities and actual default rates from empirical evidence. The Australasian market has a comparatively small number of corporate bond issues and a relatively benign credit climate over recent decades, and as such empirical data on Australian default rates is limited. Therefore, Equifax considers it is more appropriate to apply default probabilities using empirical data from international markets over several economic cycles.

Equifax's default statistics have been derived from nearly twenty years' experience analysing mainly US non-financial, non-utility corporate bond issuers. The analysis covered a relatively large number of companies (approximately 1,000 rated each year) and follows the well-established static pool approach used by Credit Rating Agencies to report their default experience. Static pools were created for bond issuers each year by both notch and grade, and the history of these bond issuers was then analysed over the period. The pools were then combined so that long-term average default experience by duration could be calculated, and both annual and cumulative default experience was calculated from the pools.

Equifax's risk analytics enable analysts to evaluate the most critical and sensitive financial and risk items through the Risk Assessment Platform by analysing key indicators to derive a definitive credit risk score and Bond Rating Equivalent (BRE), providing Probabilities of Default (PoD) over the short-, medium- and long-term horizon.

1.3 Rating Definitions

Credit ratings provide an Agency's opinion as to the capacity, viability and willingness of an entity to meet their respective financial and contractual commitments. As such credit ratings are assigned in accordance with the entity, commitment or product's proximity to default. Equifax adheres to internationally recognised grades and are similar to other agency classifications, providing ratings across twenty-two credit notches from 'D' (in default) to 'AAA' (extremely strong).

Moody's	Fitch	S&P	Rating	Default rates (5 years)	Classification	Risk Level
Aaa	AAA	AAA	AAA	0.17	High Grade	Negligible
Aa1	AA+	AA+	AA+	0.31		
Aa2	AA	AA	AA	0.44		
Aa3	AA-	AA-	AA-	0.55		
A1	A+	A+	A+	0.76	Investment Grade	Very Low
A2	A	A	A	0.81		
A3	A-	A-	A-	1.47		
Baa1	BBB+	BBB+	BBB+	2.08		Low
Baa2	BBB	BBB	BBB	3.19		
Baa3	BBB-	BBB-	BBB-	4.37		
Ba1	BB+	BB+	BB+	7.13	Near Prime	Low to Moderate
Ba2	BB	BB	BB	7.49		
Ba3	BB-	BB-	BB-	10.52		
B1	B+	B+	B+	16.34	Sub Prime	Moderate
B2	B	B	B	22.21		
B3	B-	B-	B-	24.16		High
Caa1	CCC	CCC+	CCC+	28.16	Credit Watch	Very High
Caa2		CCC	CCC	29.90		
Caa3		CCC-	CCC-	39.16		
Ca		CC	CC	52.87	Distressed	Extremely High
		C	C	55.00		
C	D	D	D	100.00		

Equifax assigns ratings based on the credit worthiness of an entity or a specific financial commitment, and provides probabilistic assessments of default over the short, medium and long-term. Every entity or commitment has some probability of default over a period of time, even those assigned with the strongest of ratings. An Investment Grade classification is attributed to credits that exhibit a lower probability of default, while a Sub-Prime classification has a greater expectancy of default.

An Equifax's credit rating may also be assigned additional clarification markers (symbols) to qualify the credit risk assessment. These may include:

Conditional Rating (#)
A Conditional Rating is used where Equifax has rated an entity on the basis of significant risk factors and/or report qualifications, with recommendations providing one or more conditions precedent and/or mitigation action(s) to reduce identified uncertainty and risk.

Provisional Rating (*)
A Provisional Rating is used when the most recent financial figures are based on draft management accounts or are deemed out-of-date. Entities with a provisional rating should be re-evaluated as soon as finalised financial statements become available.

Indicative Rating (^)
An Indicative Rating is used where Equifax is engaged to conduct preliminary analysis only, and as such an official rating assignment would require a more detailed and comprehensive investigation and due diligence assessment prior to the provision of our professional opinion.

1.4 Rating Outlooks

Equifax's forward estimates help ascertain the trajectory of ratings as well as the risks to ratings. Ratings with a positive trajectory are assigned 'Positive Outlooks'. Ratings with a negative trajectory are assigned 'Negative Outlooks'. Where Ratings are expected to remain unchanged, a 'Stable Outlook' assigned.

Rating trajectories are closely related to the outlook for the corporate's earnings. Earnings growth that is within sustainable growth parameters together with an attenuation of earnings volatility provide upward rating pressure and so may warrant the assignment of a Positive Outlook.

Credit Concepts measured

The main credit concepts measured against Australian and New Zealand Standard Industry Classifications (ANZSIC) and specific Peer Groups based on entity size are available in Corporate Scorecard's Rating methodology, which can be found at the below-mentioned links

https://www.corporatescorecard.co.nz/services_credit_ratings.php

https://www.corporatescorecard.co.nz/docs/RatingMethodologyFinancial.pdf

Additional indicators used are computed as follows:

Operating Income	Net Interest Income + Non-interest income from operations
Operating profit	Operating income – operating expenses – provisions
Non-performing Loans	Impaired loans + Loans past due for more than 90 days

2. Regulatory Disclosures and Disclaimer

Equifax Australasia Credit Ratings Pty Ltd (Equifax Credit Ratings) is a credit rating agency regulated by the Reserve Bank of New Zealand. The licensing regime addresses a range of matters including the quality and integrity of the ratings process, independence and avoidance of conflict of interest, and responsibilities to the public, clients and assessed entities. The regime also covers confidentiality, communication and disclosure, professional development, document management, and a range of governance related matters. Financial, operational and compliance audits are conducted by external, independent auditors each year.

Equifax Credit Ratings also holds an Australian Financial Services License (AFS License no. 341391) which licenses it to provide credit ratings to wholesale clients in Australia.

The credit rating issued by Equifax Credit Ratings reflects our current opinion of the relative credit risk of the institution. This opinion has been formed in accordance with Equifax's published credit ratings methodology - financial institution rating criteria (Issue 8, November 2022).

https://www.corporatescorecard.com.au/docs/RatingMethodologyFinancial.pdf

The credit rating and associated assessments, opinions and observations are solely statements of opinion. They are not statements of fact. They do not constitute advice or a recommendation. The credit rating does not guarantee the performance of the rated issuer or relevant security, and should not be relied on for the purposes of making an investment decision. All information used in the credit rating process is obtained by Equifax from sources believed by it to be accurate and reliable. Equifax adopts all necessary measures so the information used in assigning a credit rating is of sufficient quality and from sources believed to be reliable including, when appropriate, independent third-party sources. However, because of the existence of human or system error, or other factors, all information contained herein is provided 'as is' without warranty of any kind. Equifax is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Use of information contained in this report is at the recipients own risk. To the extent permitted by law, Equifax, its directors, officers, employees and any persons associated with the preparation of the release and our full report are not liable to any person in respect of anything (or the consequences of anything) done or omitted to be done by any person in reliance on any of the contents of the release or our full report; and are not responsible for any errors or omissions in the release or our full report resulting from any inaccuracy, mis-description or incompleteness of the information provided or from assumptions made or opinions reached by the parties providing the Information. All information contained herein is protected by law, including but not limited to copyright law, and this information may not be copied or otherwise reproduced, repackaged, further transmitted, transferred, disseminated, redistributed or resold, or stored for subsequent use for any such purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person without Equifax's prior written consent.

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of Equifax Australasia Credit Ratings Pty Ltd [AFSL #341391]. This document is intended to be provided only to 'wholesale clients' within the meaning provided by the Corporations Act 2001. By continuing to access this document from within Australia, you represent to Equifax that you are, or are accessing the document as a representative of, a 'wholesale client' and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to 'retail clients' within the meaning of the Corporations Act 2001. Equifax's credit rating is an opinion as to the creditworthiness of an issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be inappropriate for 'retail clients' to make any investment decision based on Equifax's credit rating, and Equifax recommends you consult with your financial or other professional adviser.

Please refer to http://corporatescorecard.com.au/services_credit_ratings.php for further information and additional regulatory disclosures, including our code of conduct, published ratings, criteria and methodologies.